

E X C H A N G E

How Can Organizations Be Competitive but Dare to Care?

by Andrew Delios

Executive Overview

The issue of social responsibility, manifested as an organization's caring efforts for its employees and the environment, has considerable importance in business practice and research. Although there is a groundswell of interest supporting organizations that dare to care, the bounds of what it means to care, especially the organizational implications of caring, have yet to be established. In this exchange, I argue that it is certainly within the responsibility of an organization's leaders to develop socially responsible practices, but the nature of industry and the institutional environments in which organizations exist jeopardize the competitiveness of organizations that implement such practices. Further, globalization amplifies the economic risks to the organizations that dare to care. Organizational leaders thus need to proactively change the nature of their competitive environment to one more supportive of social responsibility. Organizational leaders can do so through their influence on policy makers and other organizations that shape the formal and informal norms of business practices across world regions.

Many people believe that organizations have the imperative to care for society. Others take the approach of Ahlstrom (2010) in this issue, who argues that organizations are charged solely with the task of providing jobs for their employees. Ahlstrom argues that if organizations provide a good working environment, employees will generate innovations that can lead to growth. Economic growth leads to wealth creation, which presumably spreads benefits throughout society, thereby leading to improved welfare for all. Yet there is an important limiting assumption to this argument. Ahlstrom implicitly assumes that the sole economic environment in which a firm is enmeshed is the one related to its internal organization.

This assumption, that organizations are tasked

only with providing jobs for their employees, has its roots in classic works in management. In the early part of the 20th century, for example, Barnard (1938) wrote that a firm is an efficient means of organizing activities that are too large in scope for an individual to do efficiently by himself. Organizations are, therefore, economic entities that perform a set of functions more effectively in a hierarchy than through market-mediated transactions between firms (Williamson, 1975). Hence, the relationship between employees and the organization should be entirely transactional and nothing more.

In this view, the organization is but a nexus of contracts between the individuals in the firm (Jensen & Meckling, 1976). From this perspective, one can argue that given a set of appropriate incentives, organizational structures, and task definitions, an organization will fulfill its fundamental task of providing jobs and in so doing,

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be socially responsible by contributing to wealth creation. Yet this argument, and by extension Ahlstrom's, is missing two important points. It ignores the external environmental forces on an organization and it ignores the fact that organizations are social entities, populated by real communities of people. As such, an economics-based view on markets and organizations is an incomplete and undersocialized one (Granovetter, 1985).

More specifically, Ahlstrom's argument ignores the fundamental fact that wealth creation does not equate to equitable wealth distribution. Economic growth can lead to wealth creation, but informal and formal norms in a society dictate how that wealth is distributed. Ahlstrom's argument misses the point that wealth distribution from organizations to society is a function of bargaining between stakeholders, and it is related to the incentives and stresses placed on an organization by the structure of the industry in which it operates.

In addition, Ahlstrom's argument ignores the fact that organizations are a dominant social institution enmeshed in broad industry and institutional environments. Beyond providing economic opportunities for their employees and contributing to the general welfare of society through wealth creation, organizations are also social entities and, some might argue, among the dominant institutions in many countries worldwide. It follows that organizations are a focal point for an employee's life, extending far beyond the exchange of labor for pay. As such, organizations have a responsibility to their stakeholders, particularly their employees, that extends beyond the provision of a fair day's wages for a fair day's work.

This responsibility is often reflected in calls for organizations to be more socially responsible to both their internal and external stakeholders, which fundamentally relates to questions about how wealth that is created in an organization is distributed to society. Although such calls are laudable and planted in solid ethical ground, an organization's leaders, however enlightened and empathetic, must be responsive to the competitive forces emanating from their industry and institutional environments. An organization's leaders

cannot ignore the competitive imperatives that underlie an organization's ability to continue to exist. Developments in the world economy through the 1990s and 2000s have heightened levels of competition to the detriment of the very social benefits, through equitable wealth distribution, that can be provided by an organization to its employees. Organizations have tended to be passive as heightened competition has eroded social benefits. At the same time, organizations have been quite active in lobbying and influencing policy makers to improve the economic largesse, garnered through tax holidays or other fiscal incentives, that can be received when investing in a particular market.

My contention is that organizational leaders need to shift the direction of their activism if they truly want to create and sustain socially responsible and caring organizations. Through their interactions with national-level policy makers, influential individuals, and not-for-profit organizations, business leaders need to be deeply and proactively concerned with creating an environment of formal and informal norms that promotes a harmonization in cross-national standards for levels of social responsibility. Rather than being effective arbiters of markets, if an organization's leaders truly aspire to clear rhetorical hurdles to caring, they will seek to reduce cross-national differences in formal and informal standards of corporate responsibility such that organizations can implement initiatives to care without being competitively disadvantaged.

Before we turn to the arguments underlying this contention about how an organization's leaders can be challenged to care more, it is important to consider briefly a bit of the history of how points of view on caring in the organization-employee relationship have advanced over time.

From Pig Iron to Silicon

Now one of the very first requirements for a man who is fit to handle pig iron as a regular occupation is that he shall be so stupid and so phlegmatic that he more nearly resembles in his mental make-up the ox than any other type (Taylor, 1911, p. 59).

Our perspectives on organizations have evolved considerably from their century-old roots. In his famous treatise on the principles of management, Taylor (1911) espoused a systemized, scientific, and efficient approach to management. In this approach to organization, managers were overseers, charged with keeping workers focused on their jobs and reducing incidences of soldiering (workers colluding to avoid work), to lay the foundations for the pursuit of productivity gains through systemization and the creation of organization memory on routine tasks.

The task of frontline managers, or foremen, was to create a highly transactional environment, indeed even more transactional than could be found in an organizational economist's dream world. Foremen created a work environment in which tasks were clearly defined and circumscribed; the organizations provided the resources for the successful completion of the task, and there was high pay for successful work but low pay in the event of failure.

From these hundred-year-old roots sprouted organizations that have become much less transactional in their approaches to their relationships with employees, both in terms of the relationship between work and reward and in the definition of work. A high percentage of organizations in the 21st century are not places to slave one's labor, where managers practice efficiency and control techniques without regard for the human nature of the tasks. Instead, the organization-employee relationship has become much more complex. Further, an organization is often the central institution in its employees' lives. Organizations are social communities, and one of the dominant institutions for social contact in today's world. A purely transactional perspective on organizations, in which we just focus on the work that individuals do in an organization and the awarding of appropriate compensation for this work, creates an idolon that falls short of the reality of the complete guise of an organization.

These statements in and of themselves are not profound. What is profound is the creation of organizational environments that recognize, foster, and support humane values that empathize with and support employees. Organizations that

leverage their centrality in their employees' lives can build a strong sense of attachment that reinforces the economic and hierarchical ties that bind employees to the organization (Ouchi, 1980). This attachment increases an organization's control over an individual, but not in the way Taylor yearned for. Instead, attachment is positive and social; it leads to an alignment of purpose and activities (Alvesson & Lindkvist, 1993; Wilkins & Ouchi, 1983), which can be an important precursor to the reciprocal gains that come from an organization's investments in its relationships with its employees. Attachment yields control, but can also lead to inspired efforts and involvement by employees, such that organizations that aspire to provide a positive, caring work environment will not be pariahs for doing so, but can be paragons of competitiveness (Bolino, Turnley, & Bloodgood, 2002; Leana & Van Buren, 1999).

Unlike in Taylor's world, where informal groups of employees in organizations were regarded as dysfunctional, organizational theorists now recognize the substantial benefits and competitive advantages that community can create for an organization. Inter-firm and intra-firm networks of employees help to generate alignment in organizations through the generation of similar attitudes and the process of imitation. Networks provide key actors in an organization with access to resources that they require to undertake activities that can help generate competitive advantages (Brass, Galaskiewicz, Greve, & Tsai, 2004). Networks founded on trust, interaction, and sharing can also lead to greater innovative output (Tsai & Ghoshal, 1998).

Without going into too much depth in intra-organizational research on the social and networked communities that can comprise an organization, the point should be clear that organizations are much more than transactional entities. An organization is a social entity that can provide value beyond the nexus of contracts that constitute the explicit, legal relationship between the corporate entity and the individual. This value can be to the individual as well as to the organization, and such value that is yielded to the organization becomes a strong part of the justification for why organiza-

tions can and should dare to care. It is not simply altruism. It is not simply an exercise of moral and ethical beliefs. Instead, organizations that foster a sense of community and promote attachment and a strong acculturation of employees to the organization have opportunities to make competitive gains. Such a perspective is often attached to anecdotes on the success of enlightened organizations such as Google.

Pragmatist or Pollyanna

An oft-cited exemplar of a highly desirable employment environment that exhibits great care for its employees is Google. Google's offices, whether they are in the United States or Switzerland, are filled with computers and much more—slides, firehouse poles, hammocks, and game rooms. The company provides free breakfasts, lunches, and dinners and multiple places, such as in-house libraries, where employees can meet and relax (BBC, 2008). The point of this environment is to stimulate creativity, interaction, and innovation in employees—the foundations for Google's competitive advantage in its search engine and other related businesses.

Without a doubt, such an environment will foster positive attitudes in employees, enhance organizational attachment, and even perhaps stimulate innovation. Whether measured on innovation, growth, market share, or financial market performance dimensions, Google is a very successful company. This raises an interesting, important question: Does Google's dominant market position provide it with the resource slack to engage in these organizational experiments in caring, or have these organizational features in fact led to its competitive advantage in its markets? This further raises the question of endogeneity: Do profitable organizations care more or do caring organizations profit more? A related question concerns whether organizations that have less of a competitive lead on their ever-evolving and ambitious competitors can engage in similar initiatives.

Some of the answers to these questions can be found in recent management research on organizations. Research suggests that organizations can gain competitive advantages by establishing pro-

actively positive policies toward their employees (Grant, Dutton, & Russo, 2008). For example, organizations can heighten competitive advantages, via employee performance, when they invest in their employees, when they offer job security, and when they care for their employees beyond the simple contractual terms of attachment (Tsui, Pearce, Porter, & Tripoli, 1997). Much of this research has the laudable goal of demonstrating how practices that promote caring for employees—such as more benefits, training opportunities, health insurance, and more flexibility through the provision of sick days or other means of not attending work on a daily basis—can lead to better organizational performance (Pfeffer, 2010). Although this research has focused on the U.S. context, related research in other geographic settings, such as China, has also demonstrated a similar positive organizational outcome of supportive and caring management practices (Jiang, Baker, & Frazier, 2009).

Even though doing more for employees, or doing more for the environment, might plausibly lead to better organizational performance (Harter, Schmidt, & Hayes, 2002), there are two related considerations. First, there is the question of how the gains, or increased rents, are divided among the various stakeholders in the organization. Organizations need to ensure that such organizational gains do not just translate into an increase in the rents obtained by the organization's shareholders, such as is likely to occur when the owners of the organization are more transactional than relational, or highly engaged with other stakeholders (David, O'Brien, Yoshikawa, & Delios, 2010). Second, the gains need to be balanced against the increases that will be incurred in the organization's cost structure. Socially oriented initiatives will lead to an increase in an organization's cost structure (Ambec & Lanoie, 2008). Whether these costs can be offset by organizational improvements or whether the costs jeopardize the organization's competitiveness is a question fundamental to the reification and creation of caring organizations.

The increased cost structure is not a relevant question if a similar perspective is shared by all organizations about what their responsibilities are

to their employees. In such a harmonious situation, we would routinely find organizations undertaking such socially positive actions. Despite the groundswell of support for organizations to adopt a series of internal or external social outcomes or goals as part of their strategy (Rynes, Bartunek, Dutton, & Margolis, 2010), this backing tends to be rooted in one corner of our rather large and diverse world.

Even if we can see the moral and ethical legitimacy of developing caring organizations, the core fact remains that organizations must be sensitive to the cost of such initiatives, as organizations cannot escape their economic imperative. An organization must be competitive in its markets, but the rules and approaches governing the nature of competition across markets worldwide can vary in very stark ways. When an organization's leaders consider instituting practices that heighten that organization's level of responsibility to and care for employees and external constituents, substantial challenges to the implementation of such a perspective can arise when we have different perspectives on the nature of employee-organization and environment-environment relationships across organizations. Such variance is most pronounced when organizations are engaged in international competition.

The Dickens It Is

When the business historians turn to writing about the exploits of organizations in the 1990s and 2000s, a dominant story will be founded in the spirit of capitalism and entrepreneurship that emerged in these two decades in two of the southern provinces of China—Fujian and Guangdong. From the crumbles of central planning arose a tremendous number of vibrant, but temporary, corporations. Entrepreneurs built organizations that survived and thrived in the short term, with their profits being the nourishment for the seeds of ideas for the growth of new short-lived organizations.

The competitive foundation that fed the growth of these limited-term companies was entirely cost based. Entrepreneurs sought to put together the pieces of companies that manufactured lighters, assorted toys, small clothing components,

and other forms of minimal-capital, labor-intensive manufacturing with but one thought in mind: minimize cost to be competitive and profitable (Golley, 2002). Factories were bare-bones and entirely minimalist, while labor conditions and wage structures were the realization of the Lincoln Electric dream on a grand, and sometimes detestable, scale.

Within this environment of no-holds-barred capitalism, labor was an important cog—and a costable one, at least on a per-piece-of-production basis. The environment was entirely transaction based. Any compensation earned by an employee was based on his or her output. Companies needed this form of relationship with their employees, as more often than not, contracts with buyer firms were temporary in nature, with competitors waiting to secure the next production contract via a lower bid. In this Williamsonian world, workers represented a soft spot. There was little scope for collective action on the parts of the employees in these enterprises, leading to a continuation of low wages, risk of delayed or non-payment of wages, and even default of wages given notice of resignation (Tsui, 2010). Compensation for illness or industrial accidents was almost nonexistent, and even when paid was insultingly low to the value of one's limbs.

These conditions existed across organizations in the south of China, often regardless of whether the company controlling the factory was locally owned or foreign-owned. Conditions such as these persisted until China passed a new labor law in 2008 that improved the rights of mainland workers, along such essential lines as the introduction of a minimum wage and basic benefits for blue-collar workers (Wang, Appelbaum, Degiuli, & Lichtenstein, 2009). Yet the introduction of this labor law exacerbated the increased cost structure that was becoming part of China's business environment through the 2000s, where factors of production such as labor and land had already begun to erode the cost competitiveness of the region.

As a consequence, enterprises began to leave China, and they were not replaced. In Guangdong alone, 3,500 of nearly 5,000 toy-exporting businesses withdrew from the market in 2008 (Roberts, 2010). The prospect of this form of business

returning is unlikely, as other low-cost environments have beckoned. The cost of daring to care, following the institution of a legal and regulatory framework that better protected the rights of workers, even in very basic ways, was the loss of those very same enterprises that drove the unprecedented economic development of the south of China. Part of the reason for this is rooted in the foundations that led to the growth of this region: Conditions governing and regulating the employment and compensation of skilled and unskilled workers vary worldwide. This variance will factor into the decision making of astute executives who are seeking to be competitive in industries that are global and who face substantial cost pressures to be competitive. Daring to provide benefits beyond those dictated by local norms, be they legal or social, jeopardizes the competitiveness and sustainability of the organization, making the tenet a fundamental one: It is challenging to care when the organization no longer exists.

If Scott Had Gone North With a Porter

The epilogue to this China story is that it is not about China. It is about industries and institutions. The pressures exerted on organizations in China are a consequence of a globalization trend that has seen increases in cost-based competition, the disintegration of value chains, a greater prevalence of offshoring and outsourcing activities, and the dominance of larger buyers over dispersed, small, and numerous supplier firms that compete for short-term contracts in offshored locations such as China (Contractor, Kumar, Kundu, & Pedersen, 2010). The pressure on supplier firms in China to be low cost, and increasingly so, is tremendous. There is no differentiation in this commoditized manufacturing, and the loyalty from a buyer to a particular supplier is too weak to withstand the pressure of a higher cost structure.

If these suppliers dared to care, the consequence would be that organizations that cared more would be competitively disadvantaged in the short term, and likely liquidated in the medium term. Given this industry structure, cost-based competition prevails. Organizations do not have the slack or latitude to entertain the thought of

creating libraries, lunches, or leisure for their employees. Further, the institutional environment, as reflected in the regulations and legal frameworks that defined the key parameters of the employee-organization relationship, permitted, until recently, such conditions to exist and persist.

Indeed, the continued emergence of globalization across more and more regions of the world creates pressures in other countries akin to what we have seen in China in the 1990s and 2000s. Managers in multinational firms struggle to contend with pressures to compete and with the multiple formal and informal institutional standards that pervade the markets in which they have operations, be they subsidiary, export, or outsourced activities (Meyer, Mudambi, & Narula, 2010). The pressures are faced by multinational firms competing in multiple business environments, with substantial variance in their institutions. The pressures are also faced by firms competing in business environments, such as emerging and transition economies, where the institutional and competitive norms have been evolving rapidly.

Much of the development we have seen in business environments in the 1990s and 2000s has been a shift toward privatization and the emergence of market environments. Such a transition has occurred at various rates in the countries of central and eastern Europe, in numerous Asian economies, and in South American countries (Wright, Filatotchev, Hoskisson, & Peng, 2005). The transition has changed the competitive conditions faced by organizations in these business environments, which has often redefined the nature of the employee-organization relationship. The experience of Escorts Limited provides a good example of this point.

Escorts, Airplanes, and iPhones

Escorts Limited had been operating in India for several decades, as a manufacturer of bi-wheelers (scooters and motorcycles), construction equipment, tractors, and other related products, when liberalization reforms hit the Indian economy in 1991 (Anand & Delios, 1994). The shift from the pre-1990s licensed-Raj regime in India to a more open and competitive business environ-

ment post-1990s placed strains on the operations of many long-standing, traditional companies in India, such as Escorts Limited. Pre-1991, Escorts Limited had enjoyed a monopoly or duopoly position in many of its markets. Its organization was vast and redundant in many of its divisions and operations, and its employee practices were munificent. Employee compensation was not overly high, but similar to many other organizations Escorts Limited had a highly paternalistic relationship with its employees. Further, employees had little to no concern about being laid off or fired. Employment was effectively for life.

Post-1991, with the emergence of new domestic and international competitors in India and the establishment of competition along price, quality, and product innovation dimensions, Escorts Limited faced pressures not only to be more innovative and efficient, but also to reduce redundancies and streamline the organization. The organization necessarily became less munificent as a response, and there was a greater focus on employee training, output, and productivity. Escorts Limited did not become a draconian organization, such as depicted in the example on organizations in southern China, but changes in the competitive environment did mean that the nature of the relationship between the organization and its employees became more transactional and less secure for the employees.

Other long-standing organizations in India faced a similar set of pressures from the opening up of the country's markets to competition. Yet, in many instances, perhaps particularly where an organization maintained a position of market dominance, it continued to operate in the pre-1990s paternalistic and caring mode. By 2010, such companies had become paragons for organizational theorists (Cappelli, Singh, Singh, & Useem, 2010).

Titan Industries is one such company. Founded in 1984, Titan is primarily a manufacturer of watches. It is jointly owned by the Tata Group and an investment arm of the state government of Tamil Nadu. Titan has held a position of market dominance in India's watch industry almost since its foundation. Its paternalistic organizational culture still very much typifies the structure of many

of the companies founded in preliberalization India: Labor conditions are stable, pressure on the factory floor is low, wages are reasonable albeit not tremendously high, and turnover is low.

Organizations in emerging and transition economies are not the only ones facing pressures to change. Consider, for example, deregulation in developed economies such as the United States and the United Kingdom. In many instances, as deregulation has progressed, organizations that were once bastions of employee benefits have become bereft of the bonuses that bolstered employees' lives. To be competitive in liberated and deregulated environments, organizations have been forced to seek reductions in employee benefits. The postal industry in many developed countries, for example, has faced increased cost pressures with the deregulation of the industry and technology changes that created new means of communication and new competitors to carry mail, documents, and parcels. National postal organizations have been forced to seek cost reductions through contractual concessions from employees and their unions. The result? Not surprisingly, labor relations have deteriorated, and the incidence of strikes has increased. Similarly, foreign competition increased in the auto industry in North America from the 1980s to the 2000s, leading to a worsening of labor relations, as major automakers renegotiated the terms of benefits and compensation for employees. These renegotiations were sought to lower cost structures so that the North American automakers could be competitive with the new entrants.

The airline industry, which has also undergone waves of deregulation and internationalization, is yet another example. Airlines were once a preferred employer; mechanics, in-flight staff, customer service representatives, and pilots were each party to a substantial set of benefits in the pre-deregulation days of protected markets and protected routes. Yet, with deregulation has come a greater sophistication in the nature of competition—more competition, greater differentiation, and the emergence of low-cost competitors. As incumbent national carriers had less insulation from competition because of the changes in the regulations governing competition in the industry,

national legacy carriers tried to reduce employee benefits and compensation. The rounds of negotiation with unions were never easy. Labor relations worsened, employee dissatisfaction increased, and new contract offers were often met by strike action.

A dramatic example of what can happen when the nature of the organization-employee relationship changes can be found in Sabena Belgian World Airlines. In the 1990s, after the European airline industry was deregulated, Sabena faced endless rounds of often contentious and potentially violent strike action (Crossan & Pierce, 1994a) as management sought to gain more from employees and heighten productivity while more effectively controlling costs (Crossan & Pierce, 1994b). In 2001, Sabena went out of business after 78 years of operations, as it was unable to negotiate and strategize its way to competitiveness in the new deregulated airline environment in Europe. These conditions in the airline industry in Europe have persisted through the 2000s, as evidenced by the British Airways strikes in 2010 (Werdigier, 2010).

The challenge for an organization is how to be socially responsive and realistically commit to enhancing employee welfare, given intense competitive conditions. In industries exposed to such competitive pressures, there is little slack for an organization to engage in initiatives that yield a greater share of the organization's rents to its employees. Markets, shareholders, and bankers are single-mindedly focused on profits, and are notoriously impatient.

Take the case of Foxconn in Shenzhen, China. In 2010, Foxconn was the largest manufacturer of electronics and computer components for major computer and electronics brands, such as Dell, Hewlett-Packard, and Apple. Unlike the original labor-intensive manufacturers that once populated southern China, Foxconn was a sophisticated, high value-added manufacturer that made components for new and innovative products such as the iPhone and the iPad. The company had 800,000 employees, 400,000 of whom worked in its complex in Shenzhen. To be productive and efficient, and to continue to receive manufacturing contracts, Foxconn had substantial rigidities

in its hierarchical management. Management compelled employees to undertake fast, accurate assembly that often entailed mandated overtime. The pressures on employees were substantial, leading to at least 10 suicides and three attempted suicides (*China Post*, 2010).

Foxconn's response to the suicides and external criticisms about its working environment was to implement a 30% pay hike on its basic salary of US\$130 per month. When Foxconn announced this pay hike on June 1, 2010, its parent company, Hon Hai Precision Industry, a major listed company in Taiwan, saw its share price fall by 4.02%, with anticipation that it could drop another 8%. Clearly, the market did not foresee that the pay raise would be met by decreased turnover and heightened product quality and productivity to the extent required to offset the increase of US\$310 million in operating costs created by the pay raise. Interestingly, the leaders in dumping Hon Hai's stock were foreign institutional investors.

Even if efforts to enhance the employee environment could lead to greater commitment and attachment to the organization and better employee and organizational performance, such benefits might be realized too late to be usefully pursued. Given the emerging competitive exigencies found in developed and emerging economies, even when an organization's leaders are predisposed to caring, such efforts might not be realizable on a sustainable level. Fundamentally, M. E. Porter trumps E. H. Porter. Organizations cannot escape the discipline of a competitive market. Caring efforts, however noble, remain as much a dream as a reality.

Enter the Keystone Kops

If industries worldwide are moving toward heightened levels of competition through greater internationalization and the emergence of new domestic competition, then the prospects for an organization to have the slack to dare to care are not particularly high.

For some organizations, such as Google, profound competitive advantages can provide the resource slack to care. Other organizations might actually become more competitively advantaged

by caring, through a variety of mediating mechanisms such as increased organizational attachment, greater retention rates, better employee communication, and innovation creation and adoption. Such cases, however, are the organizational outliers to the competitive dictates of the industry and institutional environments in which all organizations are situated.

The reality is that the vast majority of organizations are subject to the Darwinian forces of the market, where strength is defined by efficiency and effectiveness and the creation of margins that can feed the next generation of products and competition. Managers in organizations can dare to care only as much as allowed by their advantages, by the level of competition, or by the institutional forces governing the formal and informal norms of business. Even if management educators can create programs that encourage managers to care, or even if such predispositions are inherent and need only to be awakened, the influence of competitive markets still has to be overcome.

If markets can be made noncompetitive, such as by the implementation of protectionist measures, then organizations will have the slack to be able to care. But in this case, the treatment is worse than the cure. The fallacies in the logic of protectionism, restraint of trade, and barriers to trade are well accepted (Bhagwati, 2004). Protectionist regulations reduce the pace of wealth creation and limit the amount of goods and services available to the population at large.

As protectionism is not the solution, then organizations need to turn to the manipulation of the rules of the game—namely the informal and formal regulations and practices that define the nature of competition in an environment. Elected officials or policy makers in a country or region develop the formal laws and regulations that govern the competitive environment. The formal regulations in an environment can either facilitate or constrain organizations from pursuing actions that are not commensurate with a broad social good by better serving the needs of employees and external stakeholders. In some business environments, such legislation that governs the rules of the game has been enacted through the promulgation of laws that protect the rights of workers (minimum

age and wage laws), the environment (EPA regulations in the U.S.), and consumers (anti-monopoly regulation).

Aside from the formal legal and regulatory environment, informal norms can also influence the types of practices pursued by organizations. For example, cultural norms can exert social pressures that determine whether a given business practice will be commonly pursued by organizations (March & Olsen, 1989). Informal norms are often characterized along normative, regulative, and cognitive dimensions (Scott, 2001), with these norms providing legitimacy for the pursuit of specific actions by organizations. Such legitimization can lead to the widespread adoption of various organizational actions (Edelman & Suchman, 1997), such as ones that increase an organization's level of social responsibility.

Although formal and informal regulations and norms can promote common business practices in a country, the power to create such norms, especially formal ones, resides in the policy-making environment. Policy makers (e.g., federal or national governments) enact policies that can harmonize the competitive environment, but such harmonization is restricted to the borders of the nation in which the policies have been enacted.

Consequently, institutional environments, and the formal and informal norms of business, vary across countries. Further, it is unlikely that dispersed national governments will independently act in concert to harmonize domestic policies and regulations, as the process of regulatory diffusion is a complex one (Levi Faur & Jordana, 2005). In fact, the opposite will be true, as governments compete to lure organizations to their domestic markets with a mix of fiscal and regulatory incentives. Further, policy makers will act in their own best interests and in the interests of the population that provides them with their power. Seldom is the logic of the calculus of policy makers benevolently oriented toward a wider social good in which independent states become aligned on regulations that guide the social conduct of organizations.

Even though the power to create socially oriented regulations and laws does exist in the hands of the public officials who have political power, it is possi-

ble for organizations to exert influence on the preferences of these policy makers (Henisz & Delios, 2001). Organizations are not powerless to influence the direction of change in the policy environments in which they operate. Given a true motivation to care, leaders in organizations can work with policy makers to harmonize competitive practices across the various institutional environments in which they operate. That said, such an approach involves a fundamental change in the ways in which business leaders seek to interact with policy makers. Rather than influencing, leveraging, or arbitraging differences in institutional environments to create competitive advantages (Henisz & Delios, 2002), organizations can take an active role in influencing international efforts to develop regulations that enable organizations to adopt a social caring agenda, without sacrificing competitiveness. This statement is consistent with the point that organizations can act as a means by which regulatory standards can be spread across national borders (Christmann, 2004; Terlaak, 2007).

This kind of organizational effort could supplement the tactics that are traditionally used to humanize and harmonize working regulations internationally. Nongovernmental organizations (NGOs), such as the International Labor Organization (ILO), have played an important role in propagating socially just organizational practices. Multilateral organizations such as the ILO have become the international standard bearers for caring in organizations. Of course these organizations set voluntary standards, employing neither carrot nor stick to foster caring. Instead, they appeal to moral suasion, influence the preferences of national-level policy makers, and provide information and education about the types and consequences of desirable and undesirable organizational practices. For-profit organizations could well play a critical role in this process of influence and the development of socially oriented formal and informal norms.

To the Organization and Beyond

National governments, and the policy makers embedded therein, have and will continue to have the central authority to shape and define the formal and informal norms of business prac-

tices in a given institutional environment. With globalization, however, there is an increased need for organizations to become more active as agents of positive change in the business environments in which they operate. Instead of being tacit or explicit supporters of a regulatory devolution that supports open markets and a more open playing field for the pursuit of unjust, unfair, and sometimes unsavory business practices, organizations need to catalyze and foster the institution of an international set of regulations that create powerful social and regulatory bounds for the definition and enforcement of business practices that are socially responsible. Multilateral organizations and other powerful NGOs can also help shape the policies that are enacted, but NGOs will be more effective at shaping the decisions that national-level policy makers enact when such efforts are bolstered by the strong and genuine support of the organizations whose behavior and actions will be regulated by such policies.

Such efforts will entail more direct action than rhetoric directed at improving the social responsibility of an organization, to either its employees or external stakeholders. Efforts need to extend beyond using social responsibility initiatives as a public relations vehicle to foster reputational and economic gains. Genuine interest in an organization's leaders and managers to improve the social and ethical responsibility of its business practices need to be manifest as attempts to change the competitive realities that hamper the practical effectiveness of such efforts.

It is time for organizational leaders to recognize the gravity of their position as the heads of one of the dominant institutions in today's world. True, it is challenging enough to manage the internal operations of an organization well, but the responsibilities of an organization's leaders extend to shaping the business environments in which they operate. An organization's leaders need to be attuned to the development of caring initiatives within their own organizations, but more important, they need to be active agents to counter the industrial and regulatory forces that make such caring potentially foolhardy when faced with the constraints imposed by global competition.

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